



Agenda Item # _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Ward and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Sherilyn Lombos, Deputy City Manager

DATE: February 7, 2006

SUBJECT: Consideration of the State Budget and Legislative Update from Shaw / Yoder, Inc., the City's Legislative Advocate

RECOMMENDATION:

Staff recommends that the City Council receive and file the January Budget and Legislative Update from Shaw / Yoder, Inc.

FISCAL IMPLICATION:

There are no fiscal implications associated with staff's recommendation.

BACKGROUND:

The City contracts with Shaw / Yoder, Inc. for legislative advocacy and representation. One of the deliverables of the contract with Shaw / Yoder, Inc. is that they will provide monthly updates on the state budget and legislative activity.

DISCUSSION:

The June 2005 Budget and Legislative Update from Shaw / Yoder, Inc. is attached which includes information about the state budget as well as bills of interest to the City.

Attachment: A. Budget and Legislative Update



SHAW / YODER, inc.
LEGISLATIVE ADVOCACY
ASSOCIATION MANAGEMENT

TO: MANHATTAN BEACH
FROM: TONY RICE, SHAW / YODER, INC.,
SUBJECT: GOVERNOR'S PROPOSED 2006-07 STATE BUDGET
DATE: JANUARY 10, 2006

STATE OF THE STATE

Last week, Governor Schwarzenegger unveiled his agenda for 2006 in his State of the State speech on January 5. The Governor said that it was time to replicate the kind of investments that "made California the powerhouse it is today." The governor outlined a "Strategic Growth Plan," calling for a \$222 billion investment over 10 years in transportation and air quality, K-12 and higher education, water supply and flood control, and new or expanded prisons and courthouses. Funding for the infrastructure proposal would come from bonds, new fees, federal funds and existing general funds. The governor stressed that the proposal includes no new taxes. Out of \$68 billion in proposed bonds, \$38 billion (about 55 percent) is intended for support for K-12 or higher education. In the area of transportation and air quality, the proposal calls for \$107 billion total investment over the next decade. This amount includes \$47 billion from existing funds, including Proposition 42 and federal funds. Other sources are: \$48 billion in new funding is proposed from leveraging existing funds and \$12 billion in new bond funds to attract increased federal, local and private funding. These bonds would be approved by California voters in two \$6 billion authorizations in 2006 and 2008. The proposal also includes plans for a ballot measure to enact a constitutional amendment to permanently protect Prop. 42 funding from future shifts to the state general fund.

PROPOSED 2006-07 BUDGET

This afternoon, Governor Schwarzenegger proposed the 2006-07 budget. The estimated operating deficit in 2006-07 is approximately \$6.4 billion — marking \$10 billion of progress in just over two years. After adjusting for prepayments or repayments of prior obligations, the 2006-07 operating deficit is approximately \$4.7 billion or nearly \$12 billion of improvement. The Governor's Budget includes more than \$1.8 billion in additional funding for local governments.

While continuing to take steps to reduce the operating deficit, the proposed Budget provides funds for the Governor's priorities:

- A significant increase in education/Proposition 98 funding
- After-school programs under Proposition 49
- Full funding for the second year of the Governor's Compact with Higher Education
- Full funding for Proposition 42—including an early repayment on a prior year loan from the proposition funds (a total of more than \$2 billion for improvements to California road, bridges and highways)
- Expanding resources to enroll more uninsured children in the Healthy Families and Medi-Cal programs
- \$20 million in public safety initiatives to combat gang violence, methamphetamine production, sexual assault, and financial and identity crimes

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- Establishing a Statewide Emergency Preparedness Initiative to enhance the state's ability to respond rapidly to a natural or man-made disaster.
- Addressing climate change, air pollution, and other environmental priorities.

- **GENERAL OUTLOOK:**

According to the Governor's 2006-07 Proposed State, California revenues showed solid growth in 2004 and even stronger growth in 2005. The outlook for 2006 and 2007 is for continued gains. Revenue expectations have improved from what was projected at the time the 2005 Budget Act was enacted. Since that time, General Fund revenues have increased by \$5.5 billion for the past and current years combined, with total 2005-06 revenues and transfers estimated at \$87.7 billion. For 2006-07, revenues are expected to grow by \$4.3 billion, to \$92 billion, a 4.9-percent increase year-over-year. The following table shows budgetary estimates from 2004-07:

Figure REV-01
General Fund Revenue
(Dollars in Millions)

	2004-05 Preliminary	2005-06 Forecast	2006-07 Forecast
Personal income tax	\$42,738	\$45,493	\$48,716
Sales and use tax	25,759	27,184	28,295
Corporation tax	8,670	9,621	10,024
All other	<u>5,042</u>	<u>5,393</u>	<u>4,970</u>
Total revenues and transfers¹	\$82,209	\$87,691	\$92,005
Annual percent change	6.9%	6.7%	4.9%

¹ Does not include transfer to Budget Stabilization Account

In effect, the Governor and the Legislature have more than \$11 billion of unallocated revenue to utilize for the upcoming expenditure.

Below is a summary of areas of interest to the City:

- **EDUCATION/PROPOSITION 98 FUNDING:** The Governor's proposed budget provides a substantial increase in both total funding and per pupil funding for K-12 and Community Colleges; augments core instructional programs for kindergarten through 12th grade (K-12) education through an increase of approximately \$4 billion in total revenues to public schools. Total per-pupil expenditures from all sources are projected to be \$10,336 in 2005-06 and \$10,996 in 2006-07, including funds provided for prior year settle-up obligations. Total 2006-07 Proposition 98 support for K-12 education will increase by 8.7 percent over the revised 2005 Budget Act level, as adjusted for changes in local revenues, average daily attendance (ADA) growth and forecasted economic factors. K-12 Proposition 98 per-pupil expenditures in the Governor's Budget are \$8,052 in 2006-07, up from \$7,428 in 2005-06.

- VEHICLE LICENSE FEE/REDEVELOPMENT FUNDS:** The budget acknowledges that an estimated \$1.87 billion in VLF backfill funds is scheduled to be repaid to local governments in August of 2006. It also describes that as part of the 2004 Budget Act, local government representatives agreed to eliminate the VLF offset in exchange for property tax revenues. The budget explains that for 2004-05 and 2005-06 only, that replacement revenue will be reduced by \$1.3 billion to assist the State (\$700 million in VLF backfill funding + \$600 million from property tax allocations to special districts and redevelopment agencies). This is consistent with the agreement struck last year between the Administration, the Legislature and Local Governments. Similarly, the Administration intends to eliminate these reductions in local revenues in 2006-07 and future years, consistent with the constitutional provisions enacted in Proposition 1A from the November 2004 ballot; however, we note that Proposition 1A does not expressly protect redevelopment funds from looting by the State.
- STATE/LOCAL FISCAL RELATIONSHIP:** Last year, the Governor, focusing on bringing order to the State's own fiscal affairs, instructed local governments to look to their own resources and financial management to solve local problems and meet local priorities. This year, the Governor's Budget includes more than \$1.8 billion in additional funding for local governments. This includes \$1.3 billion in property tax revenues that local governments are no longer required to shift to the Educational revenue Augmentation Fund (ERAF) pursuant to the provisions of Proposition 1 A, \$255 million for local street and road maintenance (as part of the proposed \$920 million partial repayment of the 2004-05 Proposition 42 suspension), \$96 million for Proposition 36 substance abuse treatment programs (the remainder of the \$120 million in total funding provided for Proposition 36 is spent at the state level), \$93 million for local law enforcement, \$46 million for emergency preparedness, \$40 million for county jail booking fee subventions, \$20 million for children's health care, \$18 million in additional sales tax revenue from enhanced Board of Equalization collection efforts, and \$1.6 million in disaster relief funds.
- ELIMINATION OF ERAF PAYMENTS:** Chapter 211, Statutes of 2004, required local governments to shift an additional \$1.3 billion in property tax revenues to the ERAF in both 2004-05 and 2005-06. The elimination of these shifts in 2006-07 will mean additional property tax revenues of \$350 million for both cities and counties, \$350 million for special districts, and \$250 million for redevelopment agencies.
- INFRASTRUCTURE:** The Governor's Budget proposes \$255 million for local streets and roads maintenance. In addition, a substantial portion of the Governor's Strategic Growth proposal will go to local governments for streets, roads, jails, and for other projects that serve the public interest. These monies are part of the proposed \$920 million partial repayment of the 2004-05 Proposition 42 suspension. The Governor proposes \$920 million for advance payment of a portion of the Proposition 42 loan due in 2007-08 (including interest). These dollars will be allocated as follows: \$410 million to the Traffic Congestion Relief Fund (TCRF) for TCRP projects; \$255 million to the STIP; and, \$255 million to cities and counties for local streets & roads.

- **TRANSPORTATION:** The Governor's Budget proposes total expenditures of \$14 billion in 2006-07 for roads, highways, mass transit and intercity rail, vehicle licensing and registration, and highway law enforcement. This is an increase of \$2.9 billion from the 2005 Budget Act and a decrease of \$770 million from the revised 2005-06 expenditure estimates. The Governor proposed full funding for Proposition 42 which will transfer about \$1.4 billion in revenues from the GF to transportation programs, including transit and highway projects & services. These funds would flow as follows: \$678 million to Traffic Congestion Relief Program (TCRP) projects; \$582 million to the State Transportation Improvement Program (STIP); and, \$146 million to the Public Transportation Account. (Per current law, cities and counties are not scheduled to receive any local streets & roads funds from Prop. 42 in both 2006-07 and 2007-08, because the State provided what would have been their share in 2001-02 and 2002-03, even though Prop. 42 was not fully funded in those years. Note; it is our understating that cities and counties will seek funding of these amounts in the Budget year, notwithstanding their earlier agreement.)
 - **10-YEAR MOBILITY ACTION PLAN:** Governor Schwarzenegger has proposed the Strategic Growth Plan, part of which is a historic comprehensive transportation package that incorporates GoCalifornia, a ten-year mobility action plan launched by the Administration last year. One of the components of the plan includes \$18.9 billion to expand trade corridors and regional priorities, and \$4.5 billion to expand existing transit rail, and to add new urban commuter rail and intercity passenger rail.

- **LOCAL GOVERNMENT FISCAL OUTLOOK:** The Governor's proposed budget state that while the outlook for local government revenues over the next several years is generally positive, some downside risks remain. While local investments for pensions and other liabilities likely have recovered much of their losses incurred since 2002, double-digit gains are unlikely in the future. It will be incumbent upon local governments to ensure the liquidity of their pension funds to meet the future needs of retirees. Furthermore, the state expects local governments to adhere to the new reporting standards for supplemental retirement benefits, as specified in Governmental Accounting Standards Board Statement 45.

- **PROPOSITION 36 CONTINUED FUNDING:** While the funding provided by Proposition 36 sunsets on June 30, 2006, the associated requirements are ongoing, but are not a state mandate. \$96 million is proposed (one-time) to continue to provide substance abuse treatment services to persons convicted of drug-related crimes, in accordance with Proposition 36. The Proposition provided \$120 million per year, of which \$96 million was allocated to local governments. As such, the Budget proposes a one-time grant to continue the state's allocation. The Administration will consider reforms to this program during the upcoming legislative session.

- HOUSING AND EMERGENCY SHELTER TRUST FUND ACT UPDATE:** Proposition 46 is the Housing and Emergency Shelter Trust Fund Act passed by voters in November 2002. It is the largest housing bond in the nation's history, providing \$2.1 billion for affordable homes for California's neediest citizens. As of June 30, 2005, the state had awarded approximately \$1.1 billion to create or provide incentives for more than 76,300 affordable rental or owner-occupied homes and shelter spaces. During the past two years, the HCD has implemented operational and efficiency improvements that have improved the overall performance of the department. Specifically, as part of the Governor's Initiative on Homelessness, HCD has directed approximately \$30 million in Proposition 46 funds together with Proposition 63 funds to provide homes with supportive services for seriously mentally ill homeless individuals and their families; also, HCD programs have assisted more than 9,055 homeless families and individuals, including veterans, utilizing \$98.7 million in Proposition 46 funds to create homeless shelter and transitional housing facilities. Allocations are projected to decline in 2006-07, as HCD has been able to accelerate the award of funds and some categories of funding are fully allocated.
- BOOKING FEES:** The proposal allows for \$40 million in booking fee subventions, to offset counties' costs to book suspects into county jails.
- DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT:** The Governor's Budget proposes \$477.5 million (\$16.8 million General Fund and \$460.7 million other funds) and 525 positions for the HCD's activities. This represents a decrease of \$176.4 million but an increase of 21 positions from the revised 2005-06 budget and \$98.2 million below the 2005 Budget Act. Staffing is increased for mobile and manufactured home titling, and overall funding is projected to decline primarily due to timing of major project approvals from Proposition 46 housing bond funds.
- ALCOHOLIC BEVERAGE CONTROL / GRANT ASSISTANCE PROGRAM:** The Governor's Budget proposes an additional \$1.5 million for the Grant Assistance Program (GAP), which would increase GAP funding to \$3 million in 2006-07. The GAP provides grants to local law enforcement agencies, which enable them to work with ABC enforcement personnel to investigate alcohol retailers who threaten public safety by violating licensing laws, or by allowing illegal activities on their premises. With the additional funding, the number of law enforcement agencies participating in the GAP will increase from 20 to approximately 40. Since 1997-98, leads generated by the GAP have allowed the ABC to take action against over 800 alcohol retailers per year, with the punishments ranging from fines to license suspensions and revocations.
- MENTAL HEALTH SERVICES ACT / PROPOSITION 63:** The Proposition requires transfers of \$254 million in 2004-05, \$683 million in 2005-06, and \$690 million in 2006-07. These are estimates of revenue from the additional tax. The actual amount collected will not be known until spring 2007, when 2005 tax return data are available. In 2005-06, there is a net increase of \$166,000 from the Mental Health Services Fund (MHSF) to the DMH primarily to fund an interagency agreement with the DHS for the California Mental Health Disease Management Program. The Governor's Budget includes \$8.4 million from the MHSF and 87.4 positions for the DMH's implementation of the Mental Health Services Act (MHSA) in 2006-07. Funding available from the MHSF for county expenditures is \$648.9 million in 2005-06 and \$655.5 million in 2006-07.

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